Determining the Value of Land

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There are many reasons why a landowner might need to know the value of his/her property. You may want to estimate potential estate tax liability to assist you in your estate planning. Upon death, this figure must be calculated. You may want to determine the value of property that you have decided to gift to a conservation organization. Or you may want to know the value of your property for sale purposes.

As landowners, we can and do receive widely varying messages about the market value of our property. The local assessor’s office assigns one value to our property for taxation purposes. This amount is often only a percentage of the actual market value. These appraisals are not done regularly, may not be updated for unusual market changes and are often based on broad general conclusions about local real estate values.

When you sell a property, a real estate agent will provide an estimate of your property value for selling purposes. The value is dependent upon the background of the realtor who may have little or no technical training in valuation techniques. If you purchase a property and require financing, the lender will provide an estimate of property value in determining the amount it is willing to lend you. Since the lender must protect its own interests in this analysis, its value is usually conservative. And if you seek the help of an independent appraiser, you may be provided a fourth entirely different figure for the value of your property.

Property Appraisals

The only actual measure of a property’s value is the price it sells for on the open market. Absent that, for general planning purposes a realtor’s or lender’s appraisal may suffice. But if a defensible valuation is required for federal income tax or other purposes, it must be done by a qualified appraiser who is familiar with the valuation of properties similar to yours. In order to ensure that you have a competent appraiser, consider the person’s:

- **Experience** Is the person trained to value the type of property that you own. Many appraisers deal exclusively with just one or two types of properties.
- **Credentials** In determining the appraiser’s skill, consider references from others, a qualifications summary showing training and experience, accreditations from recognized professional societies (ARA, MAI, SRA, etc.), and state licensing and certification

Examine closely the appraiser’s final work product. It should be concise, well organized and include significant supporting information, including information regarding the physical inspection of the property, research of the deed(s) and local land use regulations,
an investigation of the current market conditions for the type of property being appraised and a determination of the market value. If the land is developable land, the valuation should include considerations about the developable costs relative to the value. Finally, the work product should include an appraisal certificate, value definitions, the qualifications of the appraiser and limiting conditions.

Use Value Versus Market Value

Market value is usually determined by a sale of a property in a competitive market between two prudent and knowledgeable parties in an arm’s length transaction. It represents the highest price that one can get for his property under current market conditions and is often termed its “highest and best use”, i.e., that use which is physically and legally possible, financially feasible and results in the highest dollar value for the property. It is market value that establishes the estate tax that heirs pay upon your death.

Market value differs from use value. Use value is almost always less than market value and is based on the ability of land to generate income from its current use, e.g., farming or forest management. For example, your property may have been farmland for many years and you may wish to keep it that way, but the value given to the land upon your death for estate tax purposes will be the market, not use, value. On the other hand, both Massachusetts and Connecticut have statutory programs that value farm, forest land and other specific types of land at the current use value (there is also a federal program) for property tax purposes. In effect, the rights that you have to develop the property are not included in this valuation so that you are encouraged to retain your property in that current use.